RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Dec. 20, 1995 **LETTER 1189**

THE PICTURE: In all the years I've been watching the stock market, which is (blush) since 1945, I've never seen anything like the current market super-hype. Magazines, newspapers, TV, radio, books, all extolling the wonders, indeed the absolute necessity, of being invested in common stocks or mutual funds. In another section of this Letter I show that common stocks have now taken over from housing as the number one asset of Americans.

I'm told that due to *automatic investing* by 401(k) plans, retirement plans, pensions, mutual funds, and salary withdrawals, etc., that the demand for common stocks will overpower the supply as far into the future as the eye can see. Thus, the possibility of a primary bear market or even a severe correction is remote to non-existent.

I've heard all this before, but never from such a deafening chorus. And the market, in its sly wisdom, has done all it can to encourage the "it can't happen here" thesis. So Wall Street asks the public, "Are you having fun, yet?" And the public answers, "You bet we are, but we do have one little favor to ask -- can you fix it so the fun lasts forever?"

THE PICTURE: The "feel" of the market has changed just a bit after the last Letter. The big stock averages backed off, the NASDAQ declined, and the hysterical, high-flying Intermarket stocks were hit hard.

But then on December 13 strength again returned to the market, enough strength to take the Dow to a new bull market high of **5216.47.** The Transports missed making a new high by a mere 8 points (the Transport bull market high was struck on December 5 at **2092.11**).

So far in 1995 the Dow has established a series of 66 record highs, a number never seen before. The previous record total of new highs for a single year was 58 (for latest on price action, see Late Notes, page 6).

In the face of this bullish parade, *Investors Intelligence* reports that their weekly poll of investment advisors (incredibly) shows that the bears have been in the majority for the past 45 weeks. This is the *longest* bearish streak on their record. *Investors Intelligence* further states that in the past when a long bearish streak finally reverses and turns bullish, the market climbs higher again.

Glancing at the page 2 chart you will note that two weeks ago the **advance-decline ratio** confirmed the continuing strength in my **Primary Trend Index (PTI).** This was an important confirmation, and I guess it should have been expected. Why? Because after 24 years of observing both of these indicators, I have learned to give *most credence to the PTI.* Let me put it this way -- a persistently rising PTI ultimately drags everything (all major averages and breadth) up with it. Conversely, a persistently declining PTI will ultimately take everything down with it.

Question: How do we know when a bull market has topped out and a bear market has started?

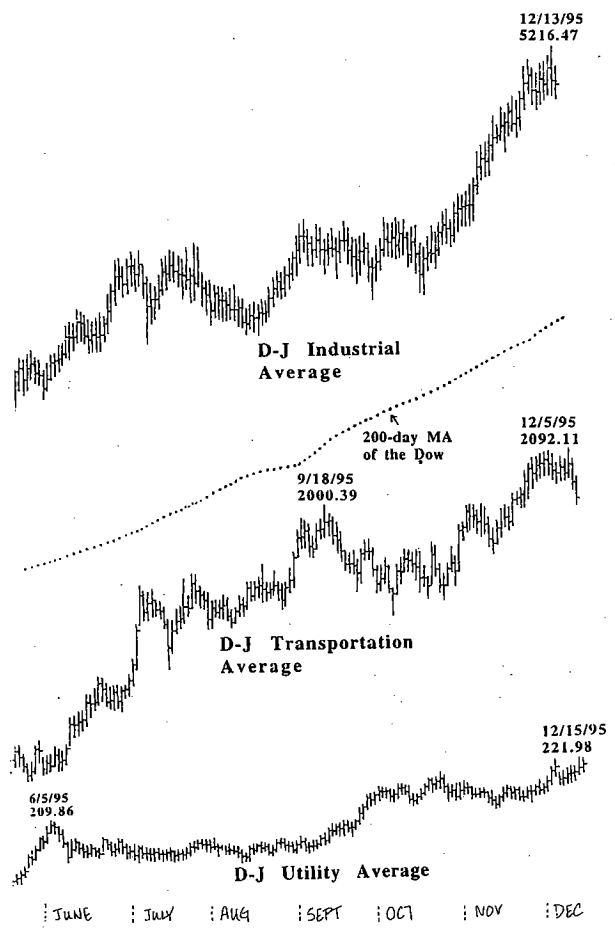
Answer: Unfortunately, there's no way in the world in which you can identify the actual top day, the day when a bull market has breathed its last. But the following is what happens at the extreme top. One day (as, for example, on September 3, 1929) the Dow or the Transports or both will advance to highs. The next day the

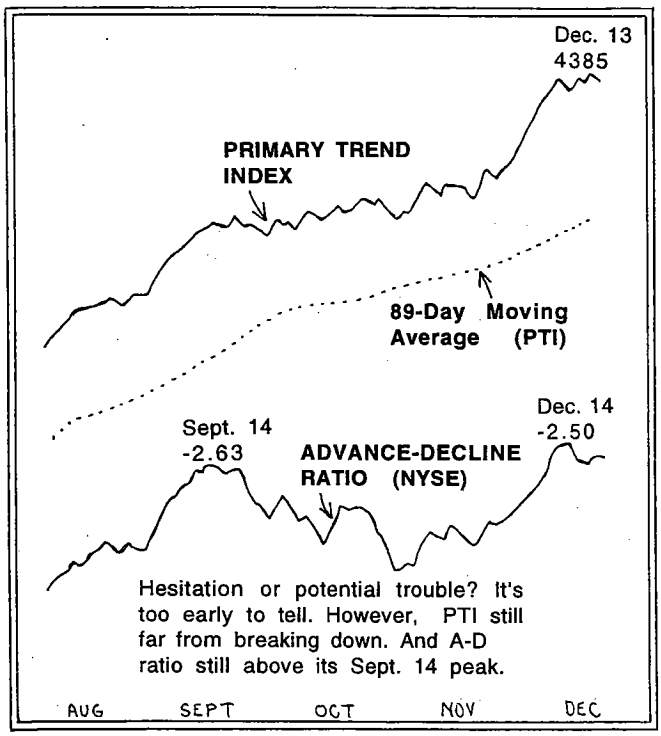
Dec. 8 DJIA 5156.86; PTI 4374; A-D Ratio -2.62
Dec. 15 DJIA 5176.73; PTI 4378; A-D Ratio -2.54
Dow Yield: 2.27%; Dow Price/Earnings: 15.8
Dow 200-day MA: 4590; Dow 30-day MA: 5031
Dow Times Book Value: 3.96; PTI 89-day MA: 4296
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 386.82; Gold-PTI: 628

Averages will turn down. The Averages may go down quietly or they may go down rapidly; the initial drop may be 5 Dow points or it may be 50 Dow points. There's just no exact formula. Each bull market tops out in a different way.

Because there's no way of telling whether the initial 5 point or 50 point drop signifies the ultimate top, Dow Theorists depend on other indications. But you must remember that Dow Theory almost always implies selling *before* the top and buying somewhat *after* the bottom.

After long and sometimes painful experiences in bull markets, Dow Theorists have learned to be satisfied with selling *before* the top. Furthermore, Dow Theorists have learned to recognize the various phenomena which characterize a bull market top. When those phenomena become blatantly obvious, Dow Theorists start moving out of equities. Some of the characteristics of a market top are high volume, minuscule yields on blue-chip stocks, explosive rises in low-priced or highly-speculative stocks, a sharp rise in secondary offerings, an over-abundance of rumors, extreme optimism on the part of investors, standing room only in boardrooms, and greatly increased market coverage in the financial section of newspapers.





Question: OK, I understand the concept of identifying terminal or top-type characteristics. But doesn't that procedure suggest that Dow Theorists may move out of the market long before the ultimate top?

Answer: Absolutely, but remember, the ultimate "crime" in investing is losing a *large* portion of your assets. The Dow Theory philosophy of moving out of the market when top characteristics appear does serve to avoid major, disastrous losses. Yes, at times this procedure may mean missing a goodly percentage of an upward move, and at other times it may mean getting out within days of the ultimate top. Investing and di-vesting always entails a matter of probabilities. There is no perfection in investing, meaning that we're always dealing with probabilities.

Question: Then when can one be sure that the tide has turned and that a bear market is in progress?

Answer: The smart alec answer is that you know it's a bear market when your neighbors cancel their trip to Hawaii and pull their kids out of private school -- and cease talking about the stock market altogether.

But the Dow Theory answer to the question is as follows: the Averages turn down from peak points, and the market lapses into a full secondary reaction. At some point the reaction will end, and the Averages will advance again. One or both Averages (Industrials and Transports) fail to record a new high. The Averages then turn down for a second time. IF, on this second decline, BOTH Averages break below the previous secondary lows (preferably on a sharp increase in volume) a primary bear market will be signaled.

Question: So isn't it true then, that the market can be down very substantially before a bona fide Dow Theory bear signal is given?

Answer: That's right. Which is why Dow Theorists bite their lips, clench their fists, sum up their courage and sell too soon -- which is to say that they start selling when the characteristics of a bull market top are in full bloom.

PERCENTAGES: One valuable study that I haven't talked about is very basic; it's a variation on the breadth studies. The method monitors the percentage of NYSE stocks holding ABOVE their 200-day moving averages.

For instance, on September 12 and again on Sept. 14 of this year, 79.5% of all NYSE stocks were holding above their 200-day moving averages. The percentage dropped to 61% at the end of October. Since then the percentage has climbed back to 67%. But 67% is well below the 79.5% of mid-September. Therefore, we can say that mid-September is where the *upside action in the majority of stocks ended.*

There are other implications here. Normally, and I repeat normally, once the percentage of stocks holding above their 200-day moving averages reaches around 80% or above and then turns down, the usual action is for the market to correct to the point where only 20% or fewer stocks are holding above their 200-day moving averages.

But remember, the market we've been dealing with has *not been a normal market.* So far, in fact, this market has been literally immune to correction. If so, if this kind of strength continues, we might expect the percentage to again push up towards the 80% zone. If that occurs from a low of only 61% it will be a testament to the relentless strength of this market.

Regardless of what we might think or expect, the PTI has been telling the real story. The story, so far, is of a market that has ignored all predictions, all indications and all warnings of a top. It's the story of a market that very simply -- does NOT want to go down.

At this time it might be well to remember that where Wall Street is concerned, there's just no crystal ball. In fact a well-known Wall Street adage warns us that **"the market can do anything."** And certainly, the current market is living proof of that adage.

PREDICTION vs. ACTION: I touched on this in the last Letter when I wrote that this market has thumbed its nose at almost every *predictive* method from timing and periodicity cycles to Elliott Waves.

The advantage of a predictive method (if it works) is obvious. The advantage is that such a method can provide *advance* information; they can tell us WHEN a move will start or end or they can tell us at WHAT LEVEL a move will start or end. That's very exciting and valuable information -- IF or when it works. But predictive methods are based on theory, and theory doesn't always work. Or as I've so often commented regarding cycles, "Where in hell are they when you need them?"

What about market-action methods? Methods based on market action are not as exciting as predictive methods. The market-action methods tell you what's happened, and then you have to decide whether what has happened is going to affect what's going to happen. Action of the market methods tend to be trend studies. For example, say daily new highs on the NYSE are running 43, 44, 51, 48, 47, 53, 58, 60. Obviously, the trend is to higher peaks, and this is bullish. So as long as the trend to higher peaks continues, we can say that the market is in good technical shape, at least from the standpoint of this indicator.

Many years ago, back in the 1960s, I concluded that I needed an indicator which would faithfully reveal the main or underlying force of the stock market. The indicator would have to be made up of a composite of indicators. If a plurality of these indicators were rising, the market was showing trend strength and was heading higher. The converse was true if a plurality of these indicators were moving down.

I picked eight indicators which I felt were absolutely fundamental to the market, and I monitored these eight indicators daily. Next, I developed a formula for combining the eight. This technique produced my Primary Trend Index. I've computed the PTI daily since 1971, and I've often told subscribers, "Believe the PTI as far as market direction is concerned. You don't have to act on what the PTI is 'saying,' that's your prerogative, but above all -- do not position yourself on the wrong side of the PTI." In other words, if the PTI is in a bull trend, you should invest with the bull trend or,

if you are skeptical, simply stay out of the market. But if you go against the PTI, for instance if you short the market while the PTI is rising, you are courting disaster. A rising PTI will tend to produce profits for those holding a diversified portfolio of stocks. By the same token a falling PTI will tend to produce losses for stockholders and profits for short sellers.

INVESTMENT POSITION: The bull stays in the box. Remember, the primary trend of the market remains bullish until PROVED otherwise, and so far there is no "otherwise" proof. True, valuations are absurd, bullishness is rampant, and every magazine and newspaper lets us in on which mutual fund to buy. But this bull market has developed tremendous upside momentum, and upside momentum does not die quickly.

I note that some of my favorite stocks (all good values, or at least they were) have done what I thought they should do. These include JP Morgan, Exxon, American Home Products, American International Group, and NationsBank.

Would I buy them now? The answer is no, I'd prefer to stand aside. To buy them at their current yields is tantamount to saying to myself, "Well, there's no income from these stocks, but I can still hope that they'll go higher." No thanks, that's not the way I buy stocks.

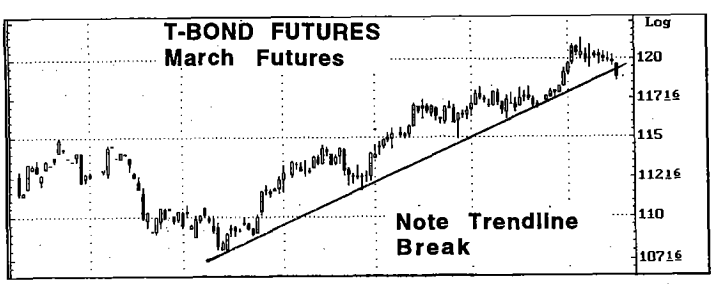
Of course, my current stance requires patience, an item which I feel that I have a lot of.

Bonds? I'd continue to hold them, on the basis of the widely-advertised thesis that the Fed will (absolutely WILL) lower rates. Yeah, even I believe they will.

BONDS, BILLS, YIELDS, DOLLARS: The yield on the 91-day Treasury bills is now around 5.40%. Go out two years and you'll get roughly the same yield. To capture a bit more, say 6%, you have to go out 12 years. From there the yields flatten out, rising slowly to around 6.40% in the year 2014.

So the obvious question is -- why go out 15 or 20 years for less than an additional 1% in yield? There's only one reason -- you think interest rates are still attractive here, and that they will be heading even lower in the future. Therefore, you move to lock in today's 6% yields. (Who knows, maybe our politicians will actually move close to balancing the budget and then rates could collapse, right?) And there's always this -- if you take a big leveraged position in bonds, and yields head down, you're going to make a killing. But for that you have to have a LOT of faith that rates are going down.

I'm including here a weekly chart of the T-bonds going back to early '94. You can see that the rise of the last year has been a hugely profitable move. The only question is, "Where do we go from here?" One thought -- everybody and his brother is predicting lower rates while trying to predict the exact date when the Fed will drop rates. Too much company for lower rates? We'll see.



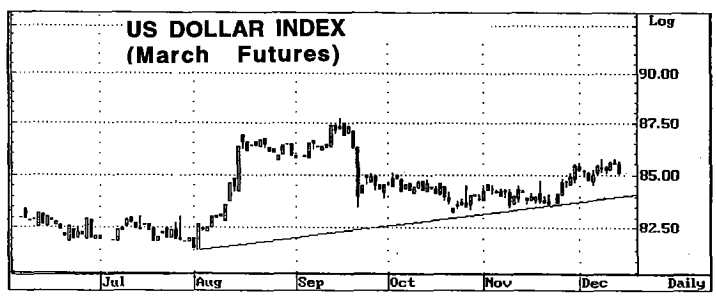
Fact: Thirty-seven major bond firms underwrite the government's total of $3.26 trillion in marketable securities.

Note: Municipal bonds are now yielding approximately 90% of the yield on Treasury bonds. This is very unusual in the world of munis. It suggests either (1) that munis are a bargain compared with T-bonds OR that (2) the muni market is planning for some kind of flat tax or national sales tax, either of which would render munis much less attractive. So if you're a muni buyer, the question you have to ask yourself is this: "Do the politicians have the brains and the guts to jettison the current ridiculous tax system and institute a flat tax or a national sales tax?" Warning -- remember, politicians seldom do anything unless they're faced with the pressure of an emergency or unless it clearly benefits the politicians.

DOLLAR: How about the dollar? The dollar appears to be basing, bouncing around, but stubbornly refusing to break to new lows. Columnist Andrew Krieger in the Dec. 4 *Forbes* makes the case for **a longer-term fundamental rise in the dollar.** I tend to agree with Krieger. He points out that the US is now cooperating with Japan in a joint effort to generate a higher dollar. He also notes that the Swiss franc is in a "bubble condition," having been driven higher by large foreign inflows of capital. The D-mark has risen strongly along with the Swissie (they tend to move in tandem).

With the US moving to balance its budget (or at least improve it), and with the US trade balance improving dramatically, the dollar could be moving into position for a major rise against the yen and the European currencies. The chart below traces the dollar index going back to June of this year.

And here's what I'm wondering -- just as the stock market advanced far beyond what even the most optimistic bulls expected, could the dollar be preparing to do the same? It's a thought. But here's another thought -- a strong dollar will hurt US exports while at the same time helping foreign sources who want to export to the US.



NOTES & QUOTES: Judging from the statistics and indicators coming in, we might expect a world economic slowdown. This, of course, is the rationale for the global strength in bonds. The prevailing theory is that we can expect, at worst, a non-inflationary world slowdown, not a severe international recession. So it's also the rationale for rising stock markets around the globe. Will the above scenario pan out? Ah, that's what makes this business so interesting. "The best laid plans of man . . . "

* *

Let's Make a Deal: Students of hard-core politics believe that Clinton (despite all his phony complaining and protestations) will have to go along with the Republicans and agree to some variety of a balanced budget. Now why would our noble President do the deal? One good reason is that Alan Greenspan has indicated that if a balanced budget agreement is passed, he will lower rates. And if that happens, it's got to be a plus for the economy. Studies show that the single strongest item in a president getting re-elected is a strong economy during the year preceding election. Prediction -- after all the histrionics, Clinton will pretty much go along with the Republicans.

* *

Maybe talking sense actually pays off. Steve Forbes is now running second to Robert Dole in a few states. Forbes is the only candidate advocating tying the dollar to gold. Forbes is also

advocating a 17% flat tax. Forbes also is for Congressional term limits. If Dole were wise, he'd work out a deal and pick Forbes as his Vice President. Then you'd have an old guy (a war hero) with a good following linked with a young guy with brains, money and the *right* ideas. I think it would be very salable ticket. By the way, I continue to believe that the GOP should use the flat tax as the MAIN item in its election campaign. The one thing ALL Americans agree on is that they despise the current US tax system.

* *

The best defense is an attack, as this headline suggests. In the meantime, Senate Republicans tighten the Whitewater noose around the neck of the Clintons, and the Clinton's stonewall, stonewall, stonewall.

Newt Is *the* Issue as Democrats Ignore All Else

By William Schneider

WASHINGTON

Republicans now have a serious political problem: Newt Gingrich.

gress in October for a job in the private sector. The GOP had a ready candidate—Tom Campbell, a former congressman U.S. Senate candidate and popular state

William Safire of the *NY Times* keeps telling it "like it is." In his Dec. 11 op-ed column, he writes a scathing report on the Clinton bunch and its never-ceasing efforts to keep their Arkansas shenanigans a secret. Concludes Safire, *"A mysterious death (Foster); witnesses unbelievably forgetful about calls made in its aftermath; conflicts of sworn testimony about concealment of the dead man's files; now claims of a privilege of secrecy. Something is under the Whitewater rock."*

Meanwhile, Clinton's latest schtick is a stream of speeches in which he extols "values." How this hypocrite has the nerve to even mouth the word "values" is beyond me. After all, this is a man who carried on an affair with another woman for 12 years and then had the nerve to deny that it ever happened. Karma, anyone?

* *

Manipulating the Messenger: One thing is clear -- if either party wants to balance the budget one thing they have to do is manipulate the statistics. That means lowering the Consumer Price index. If they lower the inflation statistics, the payout to Social Security recipients will decline and the cost of financing the debt will decline. So count on it, the government will find a way to fudge the figures (they're working on it now).

* *

FACTS: The Index of Leading Indicators (which presumably tells us which way the economy is heading) has been down in nine of the last 10 months . . . This from the *Liscio Report* [(201) 509-2256]: "The neutron economy keeps claiming victims. Corporations announced 41,293 layoffs last month, up 45% from last year. December began with Rubbermaid, Bausch & Lomb, VF Corp. and Burlington Motor Carriers all handing out pink slips" . . . Charles Biderman of *Market Trim Tabs* [(707) 525-1011] writes, "The inflow into US equity (mutual) funds continues to amaze. *Mutual Fund Trim Tabs* estimates that $3.4 billion went into domestic equity funds in the five days ending Nov. 30. Overall, *MFTT* estimates that a new all-time record of over $13 billion went into US equity funds during the month of November, well above the $9.2 billion for October reported last week by the Investment Company Institute. The previous all-time monthly record for domestic inflows was this past July's $12.4 billion."

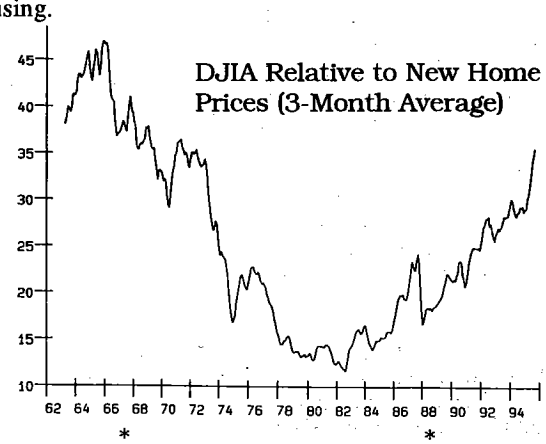
On top of the above, it is estimated that the total of all pension plans is now more than $5 trillion. Thus the average American's stake in the stock market is massive. One can only wonder what will happen when the next bear market enters the picture. It's safe to say that we will see the "wealth effect" take place -- but *in reverse.*

* *

The great Mexican bailout isn't working. Fresh disclosures by the World Bank show that the percentage of Mexico's bank loans on which customers have quit paying has reached 17.7% in October, the highest level since the government nationalized industry back in 1982. The bad-loan ratio will almost surely climb even higher once the full effect of the sharp rise in interest rates of the past several weeks takes place. In comparison, during the US bank crisis of 1983, 11% of total bank portfolios were in a crisis mode. Meanwhile, two weeks ago the government took over Mexico's fourth largest bank, parent of the 310-branch Banco Inverlet.

* *

This chart from Ed Hyman of *ISI* shows the interesting relationship between the cost of housing and the Dow. You can see that the Dow hit a relative extreme around 1968, meaning that housing was cheap compared with the Dow. Then during the early '80s the situation was reversed, and the Dow appeared cheap compared with housing. Now we are going back to the '60s relationship again with the Dow appearing relatively expensive compared with housing.



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Along these lines, according to Fed figures, the total equity Americans have in their homes is now $4.5 trillion. But the total of equities Americans now own is above $5 trillion. Thus stocks have now replaced homes as the primary "nest egg" for Americans. States Dean Witter's chief economist, Joseph Carson, "This is an astonishing, long-term asset shift away from residential real estate and towards stocks." The statistics are amazing. From 1992 to 1994 the number of stock mutual fund accounts has climbed 79%, from 33 million to 59.1 million (Investment Company Institute figures).

* *

Power of Compounding: Anne Scheiber died last week and left $22 million to Yeshiva University. How'd she do it? She retired from the IRS in 1944 with total assets of $5,000. Living alone on West 56 St. in NYC, Anne never married, and "did nothing but study the market," according to her lawyer. Scheiber owned no car, walked everywhere, wore the same black coat and matronly hat, and spent very little on herself. Over the next 50 years she ran her original $5,000 into an astounding $22 million. Scheiber's portfolio included stocks such as Coca Cola, Paramount, Schering Plough and 100 other stocks. University officials never heard of her, and when her lawyer called to inform them of the gift, officials thought it was a prankster call. They soon learned differently. **The lesson** (ah, there's always a lesson) for all of us: if you spend a lot less than you make, and you have lots of time (remember, Anne had 50 years), you can reap the rewards of the "eighth wonder of the world," COMPOUNDING INTEREST.

* *

South Africa: What many feared might happen is happening. There's an exodus of whites from S. Africa. This from a front page article in the Dec. 12 *NY Times:* "Experts say the white, wealthy and educated are leaving S. Africa in growing numbers, draining the country of expertise when it is desperately needed. Most of those departing have several reasons and a bleak view of their role in the country's future. But most often, the move is a response to the violent crime that is on the increase and seems to have touched almost everyone. In some areas reported crime has increased as much as 75% in one year . . . These days every house is a fortress, with burglar bars on the windows and a steel 'rape gate' separating the bedrooms from the rest of the house for extra protection at night . . . Dinner parties have become a frenzy of horror stories. Some are tales of what has happened to the well-known and powerful." **Russell comment:** If the exodus of talented and educated whites continues, S. Africa could sink into chaos.

* *

And here's a mind-blowing set of statistics. Latest figures show that the number of Americans behind bars shot up 9% this year over last. There are now 1.1 million Americans in prison. Incredibly, 7% of *all* black male adults are now imprisoned.

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Rising competition for brokers. Aufhauser in NYC advertises zero commissions on common and preferred stocks through their WealthWeb. You need a minimum of $10,000 in stocks or cash and you pay a flat fee of $800 per year. In return you get *unlimited* Internet equity trades. How do they do it? No brokers. One problem may be speed; you may have to wait a few minutes or more to get a trade done.

Fortune magazine (Dec. 25) offered a rundown on brokerage prices. For national brokers, A.G. Edwards was very slightly cheaper than the others on stock purchases. For discount brokers, Pacific Brokerage [(800)421-8395] was cheapest, charging only $25 for a purchase of 500 shares of $20 stocks or 100 shares of a $30 stock.

* *

There's a new wonder fabric bursting on the fashion scene. It's called Lycocell. Its developers say Lycocell creates fabrics that handle like cotton, feel like silk, hang like wool, and are machine washable. The new wonder fabric is already winning converts among top designers. Patent rights to the wood pulp-based fiber, are claimed by a UK company and an Austrian company. Courtaulds, the UK specialty chemical company, has put hundreds of millions of pounds into the fabric and consider Lycocell the growth fabric of the 21st century.

* *

There's an Internet frenzy going on. Everybody wants to be on it or in it. If you've been on the Internet, you probably are aware of the dreaded secret. It's s-l-o-w, and rather chaotic. Here's the real story in a few paragraphs (from a seminar last week in San Diego):

Internet Still Too Clumsy — And Too Slow

Most Of The Users Are The 'Early Adopters'; Average American Not There Yet

By STEVE SAKSON
AP Business Writer

NEW YORK — In a few years people may routinely use the Internet to pay bills, buy concert tickets, diagnose a disease or help with their children's homework — but only if it's easier to use, experts agreed yesterday.

"If your home telephone was as chaotic as the Internet, you really

In addition, obtaining information through the Internet via telephone lines can be a slow, balky process that leaves many people impatient and frustrated.

The portion of the Internet called the World Wide Web has proved the most popular so far because it combines photos, graphics, text and audio, but much of the Web is not that compelling, said Caroline Vanderlip, president of personal on-line services for AT&T Corp.

"A lot of companies have thrown up Web sites because they're too concerned about being left in the dust. They don't really know why they put these sites up and for most part the content is not very exciting."

* *

The war of the Internet is heating up. America's "richest man" and would-be monopolist, Bill Gates, faces what will probably be the fight of his life. Although Gates would love to take over the Internet, it seem that others in California's Silicon Valley are in Gates' way. It also seems that Gates was so obsessed with his PC software success that he failed to notice that the Internet was becoming the biggest thing in communications. Two weeks ago three of the hottest Silicon Valley firms issued a joint declaration of what amounts to war against Microsoft. Netscape has joined with Silicon Graphics (leading maker of graphic systems) and Sun Microsystems (leading manufacturer of the operating software and hardware for the "servers" that are the backbone of the Internet). The three firms promise to deliver their own entrance to the Internet and the World Wide Web (the latter is the graphic part of the Internet). Not to be denied, Bill Gates fired back with Blackbird and Gibraltar, two rival Internet products. Microsoft also announced that it was licensing Sun's Java, a move which was heralded as Microsoft's admission that it can't control the Internet. Let me put it this way -- the war for the Internet is on.

* *

Steve Jobs, one of the founders of Apple, was "moved out" of his company. Jobs formed Next, a new PC kind of company which never went anywhere. He moved into software. In 1986 he bought Pixar for $60 million. Pixar makes movies using computers instead of cameras. Pixar lost money for five years, and finally it made a full length movie for Disney. The movie, "Toy Story," was a smash hit, and happily the movie came out just about the time that Jobs decided to sell 20% of Pixar. He priced the stock at 22. The market was frantically buying Internet stocks and Pixar had some kind of electronic-Internet-magic connotation. But boom -- the stock exploded to 49. Overnight Jobs was a billionaire with a net worth of $1.17 billion. But then the speculators started studying the situation, and ooof, the stock dropped in half. As this is written, Jobs is only half a billionaire. Let's watch PIXR.

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Speaking of war, a British firm, Acorn Computer Group, PLC, is joining the race for a low-priced access vehicle which will allow you to get on the Internet directly -- without the help of any Microsoft software (no Windows). Price of the new gadget will be maybe $500. Getting onto the Internet for $500 bucks without Windows? No wonder Bill Gates is pulling his hair out. Oracle and Sun Microsystems are also moving to put out the same kind of low-priced Internet access machine.

Promising a $500 Internet Browser

By Lawrence M. Fisher
New York Times Service

NEW YORK — The $500 digital appliance predicted by Oracle Corp. as the interface of choice with the information highway may soon hit the stores, but cour-

LSI Logic to Introduce A Cheap Internet Chip

Compiled By Our Staff From Dispatches

to Intel Corp.'s 486DX2 but in a much smaller size and hence at a lower cost and with much lower power consumption. That is why Apple Computer Inc. uses the ARM chip in its Newton.

Acorn uses the ARM chip as part of an

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If you want your country to be recognized as a great, developed, industrialized nation, what do you do? Easy -- you build the world's tallest structure. It's the new ultra-status symbol. All Asia is going all-out for the record. Next year Kuala Lampur will finish its 88-story 1,476 feet office building. It will be 7 meters taller than the Sears Tower in Chicago, currently the world's tallest building. Actually, the Sears Tower is taller than NYC's World Trade Center tower (419 meters) which in turn is taller than the Empire State Building (381 meters). But wait -- China by 1997 will boast the Chongquing Tower in the main city of Sichuan. The Tower will be 457 meters high, dwarfing America's Empire State Building.

* *

My old friend, Harry Browne, is running for President of the US on the Libertarian ticket. Harry is calling for "an immediate reduction of 50% in the federal government and the end of the income tax." Don't laugh, it would probably work well. My own feeling is that if the Founding Fathers of this nation could see what has happened to their beloved country, they would be absolutely aghast. Writes Harry Browne, "Government doesn't work. It can't deliver the mail on time; it doesn't keep the cities safe; it doesn't educate our children as we want; it doesn't keep its promises. The solution isn't to reform government, but to make it as small as possible." Browne's new book is just hitting the bookstores. The book is appropriately titled, "Why Government Doesn't Work."

Russell comment: I can't think of a single thing that the government does that private industry couldn't do better. But grudgingly I admit that the military and court system might as well stay as government functions. The fact is that we all know that government doesn't work, but people are shortsighted and greedy, and as long as the government takes money from the more-productive group and distributes it to the mass of voters, the same status quo politicians remain in power. To me, the greatest single scandal in the nation is that almost nobody is taught the US Constitution. Consequently, almost nobody realizes how the Constitution has been subverted. I feel that the Constitution should be taught to every grammar school, high school and college student in the nation. The reason the politicians have gotten away with what they have is that Americans don't have any idea of how they have been hoodwinked by politicians and the courts.

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Speaking of the government, where does the Post Office get off spending money on advertising? What are they advertising for --

they already have a monopoly on first class mail. The PO hired Opinion Research of Princeton, NJ to conduct customer satisfaction surveys. The PO publicized the ratings for a while. But oops, the ratings were negative. The PO then took the low road -- the surveys will continue but the results will *not* be made public. By the way, the PO actually made a profit of $1.7 billion this year. So will they lower the price of stamps? Dream on. By the way, *Barron's* (Dec. 11) included an article which makes one wonder whether the PO (in the face of increasing electronic competition) will survive at all.

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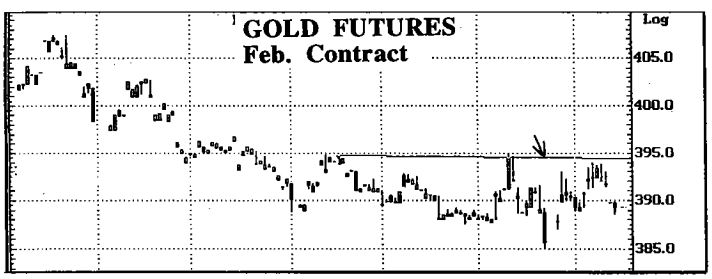
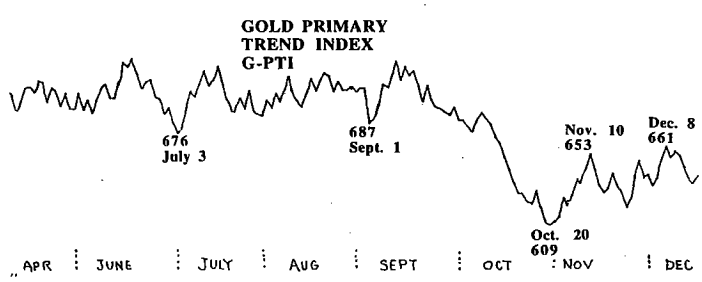
The Whitney Museum in NYC is putting on a comprehensive exhibit of the literature and art of the "beat generation." The originator of the beats was Jack Kerouac, surrounded by his buddies, Gregory Corso, Alan Ginsberg, Lawrence Ferlinghetti and others. I went to high school with Jack Kerouac, who was one class above me. At Horace Mann in NYC Kerouac was a "ringer," a football player brought in on a scholarship for his athletic ability. Kerouac was a pretty good football player (halfback), but aside from football Jack never created much stir at school. Let me put it this way, Kerouac at the time showed little of the talent and originality that was later to make him famous. A whole generation grew up around the "beats," and of course, the beats led the way for the '60s and the heavy metal and drugs generation. That generation led the way to today's violent, dope-ridden, rap generation, a generation characterized by dysfunctional families, AIDS, teen-age moms, drive-by shooters, crack babies and over-crowded prisons.

GOLD: Each week I receive a goodly pile of literature regarding gold. Evidently, there are still thousands (millions?) of people who believe the United States Constitution to the effect that only gold is real money and that paper created by a central bank is well -- just paper.

So let's face it -- the reality of gold as money continues to escape the masses as it continues to escape the markets. Proof -- you can still buy one ounce of pure shining gold for a little less than four hundred fed-created paper dollars.

"When will gold rise?" ask the true believers. The answer isn't blowin' in the wind, it's in the charts, and specifically in the accompanying daily chart of the April gold contract. Talk about frustration! Last week April gold moved up to the 393.60 level and appeared ready for an important breakout above resistance at just under 395 (horizontal line at the arrow). Then *whap* -- on Dec. 14 April gold again slid below 390, leaving gold-philes frustrated and back playing the waiting game.

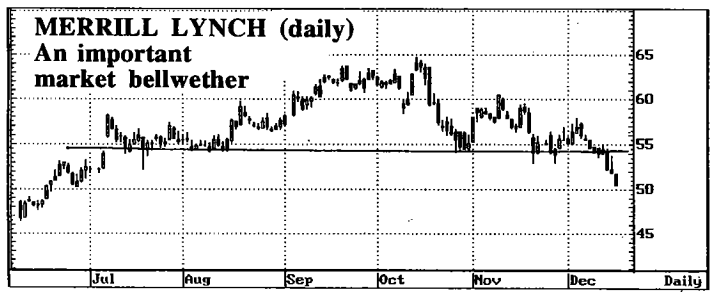




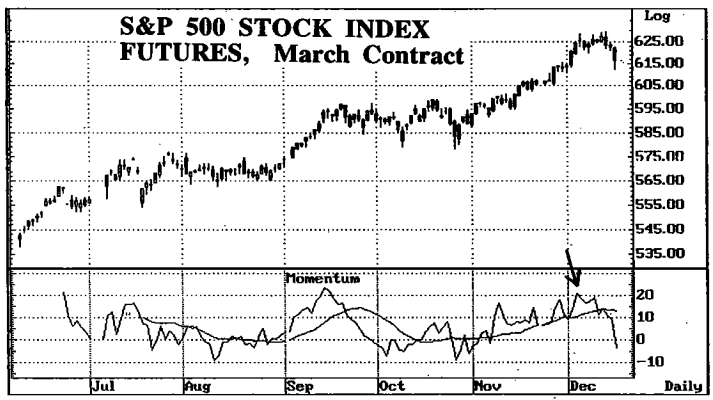
My Gold-Primary Trend Index (G-PTI) has been telling the same story, maybe even more clearly. The G-PTI breaks out and appears to be heading higher; then, fizzle, and gold backs off and consolidates again (even though at a higher level).

As for stocks, Barrick Gold is probably THE star. Barrick just received a billion dollar line of credit, and the company is aggressively going after the yellow metal. Toronto's Euro Nevada and Franco Nevada plus Barrick Gold, those three are all you need as far as gold stocks are concerned (the first two don't mine gold, but they receive royalties from other gold mines).

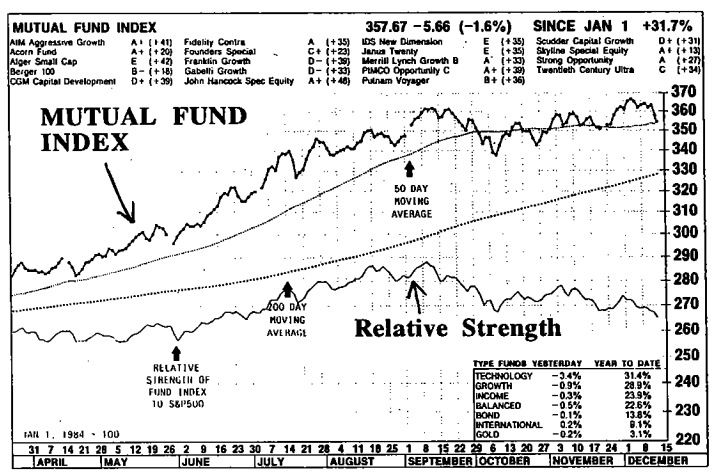
LATE NOTES: I've always held that the brokerage houses, and specifically Merrill Lynch, constitute the best bellwethers of today's market. Wall Street seems to sense what lies ahead. I don't know whether you've noticed it, but the brokerage houses, almost as a group, have topped out. Merrill's chart is shown below.



I'm also including a chart of the **S&P** Index Futures, March contract. Note the momentum line below. Prognosis -- not good. The last time S&P momentum peaked and turned down (September), it led to only a mild correction to the 580 level. Let's see what happens this time. By the way, I DON'T LIKE the way the Transports are acting. They have the faint aroma of recession about them (remember, the Transports reflect the nation's sales and shipping capabilities.



Investor's Business Daily's **Mutual Fund Index** is also worth studying. Note that as of last week's close, the Index was actually below the September peak. Note also the relative strength line for the Index has hit its lowest level since early July. Not good.



NEXT MAILING: Jan. 3, 1996